

**LA PORTE CITY UTILITIES**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2010**

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**La Porte City Utilities**

**Board of Trustees**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Phil Norris	Trustee - Chairman	September 2015
Don Heckroth	Trustee – Secretary	September 2011
Jon Barz	Trustee	September 2013

**La Porte City Utilities**

**RFSW** Ridihalgh Fuelling  
Snitker Weber & Co.  
C E R T I F I E D   P U B L I C   A C C O U N T A N T S

Alan W. Flick, CPA  
Gina E. Trimble, CPA

**Independent Auditor's Report**

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To the Board of Trustees:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities, as of and for the year ended June 30, 2010, which collectively comprise the Utility's basic financial statements listed in the table of contents. These financial statements are the responsibility of the La Porte City Utilities's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 28, 2011 on our consideration of the La Porte City Utilities's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 23 through 24 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the La Porte City Utilities's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2009 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Ridihalgh, Fuelling, Snitker, Weber & Co. P.C.*

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., C.P.A.'S

February 28, 2011

LA PORTE CITY UTILITIES  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2010

## LA PORTE CITY UTILITIES

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### MANAGEMENT DISCUSSION AND ANALYSIS

La Porte City Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. It is to be used in conjunction with the Utilities Annual Report, which follow.

#### BASIS OF ACCOUNTING

The Utilities has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a method of accounting other than generally accepted accounting principles. Basis of accounting is a reference as to *when* financial events are recorded. Under the modified cash basis of accounting, revenues and expenses and their related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (*such as accounts receivable and revenue for billed or provided services not yet collected*); as well as certain liabilities and their related expenses (*such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities*) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

#### HOW TO USE THE ANNUAL REPORT

The items in the annual report consist of a series of financial statements and other information as follows:

##### **Basic Financial Statements**

- **Statement of Activities and Net Assets – Cash Basis** (Exhibit A)  
Presents the major program costs and program receipts associated with that program. This is to determine the extent that the programs are self-supporting.
- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances** (Exhibit B)  
Presents the Utilities operations in more detail by providing information on the most significant funds with the non-major funds lumped together.
- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets** (Exhibit C)  
Reconciles any differences between Exhibit A and Exhibit B

##### **Notes to the Financial Statements**

- Provide additional information essential to a full understanding of the data provided in the basic financial statements.

##### **Required Supplementary Information**

- Further explains and supports the financial statements with a comparison of the Utilities budget for the year.

##### **Other Supplementary Information**

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Proprietary Funds** (Schedule 1)  
Presents the non-major funds in more detail that were lumped together in Exhibit B.

LA PORTE CITY UTILITIES  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2010

- **Schedule of Indebtedness** (Schedule 2)  
Presents detailed information on outstanding debts incurred by the Utilities.
- **Bond and Note Maturities** (Schedule 3)  
Summarized bond repayment schedule
- **Schedule of Receipts by Source and Disbursements by Function – All Proprietary Funds** (Schedule 4)  
Provides a multi-year comparison of the Utilities revenues and disbursements as a whole.

Part of the requirements of the Management Discussion and Analysis is to provide a brief discussion of the Basic Financial Statements included in the Annual Report and the information they provide.

### **BASIC FINANCIAL STATEMENTS**

- **Statement of Activities and Net Assets – Cash Basis** (Exhibit A)

The first section of the statement presents the major **Functions/Programs**. For the Utilities, those are the Electric Fund, Water fund, Debt Service Reserve Fund, Capital Improvement Reserve fund, and the Diesel Engine Reserve fund. The *Disbursements* are listed in the first column with *Charges for Service and Restricted Interest* revenues from each program to the right. The result is a Net (Expense)/Revenue. This is to determine the extent to which the programs support themselves.

The next section is the **General Receipts**. It shows the *Bond Proceeds, Unrestricted Interest, Miscellaneous Revenues, and Transfers*. These revenues are not listed above because they are not generated from the direct operation of the program.

Adding the *Business Type Activities Total* with the *Total General Receipts and Transfers* equals the *Change in Cash Basis Net Assets* or the total increase/(decrease) in net assets for the Utilities for the year. For the fiscal year ending June 30, 2010, the change in net assets was a decrease of \$143,160. Subtract that from the *Beginning Net Assets* balance of \$725,065 gives us a new *Cash Basis Net Assets – End of Year* balance of \$581,905.

The final section of this report shows that the *Cash Basis Net Assets* consist of \$280,634 in restricted funds, and \$301,271 in un-restricted funds. Of the restricted funds, some are required to be established by Bond Covenants, others by State Law, or some are established by the Board to help it control and manage money for particular purposes.

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances** (Exhibit B)

The Utilities have only one type of fund: Proprietary or Enterprise funds. These types of funds are used to report Business Type Activities (activities that are primarily self-supporting). The major funds the Utilities maintain are the Electric and Water fund, as well as the Debt Service Reserve Fund, Capital Improvement Reserve Fund, and the Diesel Engine Reserve Fund. All other funds are lumped together as Non-Major funds for the purpose of this report. For detailed information on the other funds, go to Other Supplementary Information, Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Proprietary Funds (Schedule 1).

Each fund has its own column to report the different types of Receipts, with the disbursements subtracted to obtain the *Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements*. This gives us the Net Operating Revenue (Loss) for each fund. After adding in the Bond Proceeds and subtracting out the Debt Service disbursements, and Operating Transfers we come to the *Net Change in Cash Balances* for each fund. This is the Net "Profit/ (Loss)" for each of the funds

After adding the *Net Change in Cash Balances* to the *Cash Beginning Balances*, we have the new *Cash Ending Balance* for each of the funds.

The statement then also breaks down the *Cash Ending Balances* by Reserved and Unreserved.



LA PORTE CITY UTILITIES  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2010

- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets** (Exhibit C)

This reconciles any differences in the Cash Ending Balances or Net Change in Cash from Exhibit A and Exhibit B.

## FINANCIAL HIGHLIGHTS

- The total revenues for all departments were \$2,038,088. This is an increase of \$321,129 or an 18% increase from the previous year's revenues. Of this \$321,129 increase, \$153,028 was due to issuance of Proceeds of Debt from the State Revolving Loan Fund, to help municipalities fund extensive improvements to their water systems. The money borrowed to date is \$207,928, all for the Planning and Design Phase of the Water System Improvements.
  - Use of Money and Property in the 2010 fiscal year was \$9,631; this is a decrease of \$13,289 or approximately a 57 percent decrease from the previous year's earnings. Using some of the reserves for capital improvement projects and operating expenses coupled with decreasing interest rates resulted in this decrease.

The total disbursements for all departments were \$2,181,248. The increase overall is \$118,742 or approximately 6 percent from the previous year's total expenses, all attributable to Capital Projects. We actually decreased our operating expenditures in both the Electric and Water Fund. Capital Improvements are an important part of providing reliable and quality services. Capital Improvement costs increased \$157,519 or 76% percent from 2009.

- **Office Renovation:** We purchased a building in 2009 to be renovated for an office. The remodeling and finishing work was part of our capital improvements. The move to the new location was completed in June, 2010.
- **Capital Project:** The Iowa Department of Natural Resources completed an inspection of our water system in 2009 and determined that major improvements were necessary to have a viable water system, including a new water tower and well. We started planning for the upgrades in the 2009 and ongoing Preliminary Engineering fees and fees associated with the State Revolving Fund Loan in this fiscal year were \$148,876.93. We also purchased an adjacent lot next to the existing water tower for \$20,000 to be used for the new water tower location. The Generating Power Plant had renovations to the heater exchanger and a new boiler installed.
- **Capital Purchases:** A new transformer was purchased and installed at the school's sport complex and we purchased a new riding lawn mower.
- Expenses exceeded revenues resulting in a decrease in the net assets of \$143,160. This is compared to a net decrease the previous year of \$247,419. The ending fund balance on June 30, 2009 was \$581,905.
- According to our Bond Covenant, our Net Operating Revenues (Receipts less Operating Disbursements) for the electric department must be at least 125% of the year's scheduled Bond Payment. The Bond payment paid for FY2010 was \$148,230. This means we must have Net Operating Revenues of \$185,287. Since our expenses exceeded our revenues, we did not make our bond test. The increase implemented in June 2010 allowed for a 2% rate increase for the next four years so that we can meet the bond test.

LA PORTE CITY UTILITIES  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2010

	Year Ended June 30, 2009			
	2010	2009	\$ Difference	% Change
Program Receipts:				
Charges for Service:				
Electric	\$1,447,201	\$1,409,876	\$37,325	2.6%
Water	\$327,720	\$243,408	\$84,312	34.6%
Restricted Interest	\$4,783	\$10,838	-\$6055	-55.8%
General Receipts:				
Un-restricted Interest	\$4,848	\$12,082	-\$7,234	-59.8%
Miscellaneous	\$100,508	\$83,983	\$16,525	19.6%
Proceeds of Long Term Debt	\$153,028	\$54,900	\$98,128	178.0%
Total Receipts	\$2,038,088	\$1,815,087	\$321,129	-17.6%
Disbursements:				
Operating Disbursements:				
Electric	\$1,478,411	\$1,506,241	-\$27,830	-1.8%
Water	191,829	201,801	-9,972	-4.9%
Capital Projects	363,753	206,234	157,519	76.3%
Debt Service	147,255	148,230	-975	-6.4%
Total Disbursements	\$2,181,248	\$2,062,506	\$118,742	5.7%
Increase (Decrease) in Cash Balance	-\$143,160	-\$247,419	\$118,742	47.9%
Cash Basis Net Assets Beginning of Year	725,065	972,484		
Cash Basis Net Assets End of Year	\$581,905	\$725,065		

LA PORTE CITY UTILITIES  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2010

## 2010 BUDGETARY HIGHLIGHTS

Over the course of the year, the Utilities amended its budget once. The amendment was approved in May 2010. The amendment allowed for the following changes:

### Electric department

#### Revenue:

- Lowered Charges for Services due to anticipated rate increase was not implemented until the last month of the fiscal year...
- Decreased Use of Money and Property due to drastically lower than estimated interest rates.

#### Expenses:

- Increased maintenance of generators due to a \$30,000 expenditure to replace boiler.
- Increased capital project line items in anticipation of completing major projects, such as building a new overhead line on Bishop Road and a new heat exchanger in power plant.
- Increased capital expenditure line items due to completion of new office interior as well as purchase of capital equipment to install at the school district's ball new sports complex,
- As part of the ongoing capital assets plan, we budget each year for money to be set aside for the purchase of trucks. We planned to set aside \$37,860 but the revenues for the year were not sufficient to allow for that this year.

### Water department

#### Revenue:

- Increased Charges for Services due to a rate increase to prepare for debt service of Water System Capital Improvement project.
- Increased Proceeds of Debt to account for \$153,028 received for the Preliminary Engineering and Design Loan for the Water System Capital Project.
- Decreased Use of Money and Property due to drastically lower than estimated interest rates.

#### Expenses:

- Increased capital expenditures for engineering expenses for system improvements mandated by the DNR and completion of new office interior, purchase of land for the new water tower, and all costs associated with the bonding attorney and closing on the State Revolving Water Fund Loan.
- As part of the ongoing capital assets plan, we budget each year for money to be set aside for the purchase of trucks. We planned to set aside \$6,000 but the revenues for the year were not sufficient to allow for that this year.

## DEBT ADMINISTRATION

As of June 30, 2010 the Utilities had an obligation of \$650,000 in Revenue Bonds outstanding. The bonds were originally issued March 1, 2000 for \$1,465,000 and reissued in May, 2008 for \$885,000 to take advantage of lower interest rates. The 2008 Series bonds are scheduled to mature in 2015.

## NEXT YEAR'S BUDGET AND RATES

The Utilities administration and Board members considered many factors when setting the Fiscal Year 2011 budget.

- According to our Bond Covenant, our projected Net Operating Revenues (Receipts less Operating Disbursements) for the Electric Department must be at least 120% of that year's scheduled Bond Payment. At the time of budgeting, the bond payment due in 2011 is \$143,475. That means we are required to have Net Operating Revenues in the Electric Department of at least \$172,170. We budgeted an Electric rate increase in FY2010 but it was not implemented until June, 2010, so our bond test was not met. Our rate increase also included the provision to increase the electric rates 2% a year

LA PORTE CITY UTILITIES  
MANAGEMENT DISCUSSION & ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2010

for the next four years to help ensure that the bond test is met along with meeting our operating cost needs.

- The remaining items were budgeted fairly consistent compared to those of the 2009 fiscal year. There were minor increases to account for forecast increases in insurance and wages.
- Part of our Capital Plan includes setting monies aside each year for future purchases of capital assets. This was continued as part of the 2010 budget.

#### **CONTACTING THE UTILITIES FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers and creditors with a general overview of the Utilities finances and to show the Utilities are accountable for the money it receives. If you have questions about this report or need additional financial information, contact Sue Hrubes, La Porte City Utilities Office Manager, 403 Main Street, La Porte City, Iowa.

## **Basic Financial Statements**

## La Porte City Utilities

## Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Business Type Activities Total
<b>Functions / Programs:</b>				
Business type activities:				
Electric	\$ 1,654,456	1,447,201	-	(207,255)
Water	379,537	327,720	-	(51,817)
Debt Service	147,255	-	-	(147,255)
Capital Improvement Reserve	-	-	3,358	3,358
Diesel Engine Reserve	-	-	1,411	1,411
Non-major funds	-	-	14	14
Total business type activities	2,181,248	1,774,921	4,783	(401,544)
<b>General Receipts:</b>				
Bond proceeds				153,028
Unrestricted interest on investments				4,848
Miscellaneous				100,508
Transfers				-
Total general receipts and transfers				258,384
Change in cash basis net assets				(143,160)
Cash basis net assets beginning of year				725,065
Cash basis net assets end of year				\$ 581,905
<b>Cash Basis Net Assets</b>				
Restricted:				
Expendable:				
Capital improvements				\$ 179,283
Diesel engine				101,351
Unrestricted				301,271
Total cash basis net assets				\$ 581,905

See notes to financial statements

La Porte City Utilities  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2010

	Enterprise Funds					Total
	Electric	Water	Capital Improvement Reserve	Diesel Engine Reserve	Other Nonmajor Proprietary Funds	
Operating receipts:						
Use of money and property	\$ 3,146	1,702	3,358	1,411	14	9,631
Charges for service	1,447,201	327,720	-	-	-	1,774,921
Miscellaneous	78,225	22,283	-	-	-	100,508
Total operating receipts	1,528,572	351,705	3,358	1,411	14	1,885,060
Operating disbursements:						
Business type activities	1,654,456	379,537	-	-	-	2,033,993
Total operating disbursements	1,654,456	379,537	-	-	-	2,033,993
Excess (deficiency) of operating receipts over (under) operating disbursements	(125,884)	(27,832)	3,358	1,411	14	(148,933)
Non-operating receipts (disbursements):						
Bond proceeds	-	153,028	-	-	-	153,028
Debt service	-	-	-	-	(147,255)	(147,255)
Total non-operating receipts (disbursements)	-	153,028	-	-	(147,255)	5,773
Excess (deficiency) of receipts over (under) disbursements	(125,884)	125,196	3,358	1,411	(147,241)	(143,160)
Operating transfers in/(out)	(133,783)	2,193	(15,665)	-	147,255	-
Net change in cash balances	(259,667)	127,389	(12,307)	1,411	14	(143,160)
Cash balances beginning of year	296,373	127,307	191,590	89,940	19,855	725,065
Cash balances end of year	\$ 36,706	254,696	179,283	91,351	19,869	581,905
<b>Cash Basis Fund Balances</b>						
Reserved	-	-	-	-	-	-
Unreserved	36,706	254,696	179,283	91,351	19,869	581,905
Total cash basis fund balances	\$ 36,706	254,696	179,283	91,351	19,869	581,905

See notes to financial statements

La Porte City Utilities

Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Statement of Activities and Net Assets -  
Proprietary Funds

As of and for the year ended June 30, 2010

<b>Total enterprise funds cash balances (page 15)</b>	\$ 581,905
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The utility does not have an internal service fund.  
Therefore there are no reconciling items.

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<b>Cash basis net assets of business type activities (page 14)</b>	<u>\$ 581,905</u>
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<b>Net change in cash balances (page 15)</b>	\$ (143,160)
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The utility does not have an internal service fund.  
Therefore there are no reconciling items.

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<b>Change in cash balance of business type activities (page 14)</b>	<u>\$ (143,160)</u>
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See notes to financial statements



La Porte City Utilities

Notes to Financial Statements

June 30, 2010

**(1) Summary of Significant Accounting Policies**

A. Reporting Entity

The La Porte City Utilities is a component unit of the City of La Porte City, Iowa. The Utility is a legally separate organization, which has the authority to modify and approve its budget, modify and approve its rates, and is not dependent on any other organization. The Utilities' trustees are appointed by the mayor of the City of La Porte City, and they are approved by the City Council.

For financial reporting purposes, the La Porte City Utilities has included all funds.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Utility. For the most part, the effect of interfund activity has been removed from this statement. The Utility reports business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the Utility's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function.

Fund Financial Statements - Major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining enterprise funds are aggregated and reported as nonmajor proprietary funds.

The Utility reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the Utility's electricity.

The Water Fund accounts for the operation and maintenance of the Utility's water system.

The Capital Improvement Reserve Fund acts as a reserve fund for future capital improvements.

The Diesel Engine Reserve Fund was a reserve fund established per the bond covenants.

C. Measurement Focus and Basis of Accounting

The La Porte City Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.

**(2) Cash and Pooled Investments**

The Utility's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility held investments in credit unions which are valued at \$236,559 and are collateralized with letters of credit held by the Utility in accordance with Chapter 12C of the Code of Iowa.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust, which are valued at an amortized cost of \$49,748 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

**(3) Revenue Bonds and Loans Payable**

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30,	Utility Revenue Bond	
	Principal	Interest
2011	120,000	23,075
2012	125,000	19,115
2013	130,000	14,865
2014	135,000	10,315
2015	140,000	5,320
Total	\$ 650,000	72,690

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate electric revenue bond sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additionally, a reserve account within the Enterprise Funds shall be maintained. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

During the prior fiscal year the Utility was awarded a \$250,000 State Revolving Loan with zero percent interest. Loan advances of \$54,900 and \$153,028 were taken out during the years ended June 30, 2009 and 2010, respectively. No principal or interest payments had been made as of June 30, 2010. The purpose of the loan is for paying costs associated with acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping the La Porte City Municipal Water Utility.

**(4) Pension and Retirement Benefits**

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary and the Utility is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for

the years ended June 30, 2010, 2009, and 2008 were \$17,118, \$16,546, and \$14,035, respectively, equal to the required contributions for each year.

**(5) Other Postemployment Benefits (OPEB)**

Plan Description - The Utility operates a single-employer benefit plan which provides medical/prescription drug benefits for employees and retirees. There are 5 active and no retired members in the plan. Participants must be age 55 or older at retirement to be eligible.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the full cost of the premium for the medical/prescription drug benefits.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Utility. The most recent active member monthly premiums are \$1,302.88 for family coverage. The Utility pays for 100% of the monthly premium. For the year ended June 30, 2010, the Utility paid \$69,035.86 on behalf of plan members.

**(6) Compensated Absences**

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utility until used or paid. The Utility's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2010, primarily relating to the Electric and Water Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 12,979
Sick leave	<u>3,166</u>
Total	<u>\$ 16,145</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Electric	\$ 147,255
Electric	Capital Improvement Reserve	13,472
Water	Capital Improvement Reserve	2,193

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(8) Risk Management**

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Litigation**

The Utility was not subject to any pending litigation during the year.

**(10) Subsequent Event**

In August 2010 the Utility refinanced its Iowa State Revolving Fund Revenue Bonds, Series 2010. The balance of the draws to date, \$207,928, plus a \$30,000 initiation fee was financed. The Utility plans to draw additional proceeds from these bonds during the next year to finance costs associated with construction and improvement of the La Porte City Municipal Water Utility.

### **Required Supplementary Information**

La Porte City Utilities

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Proprietary Funds

Required Supplementary Information

Year ended June 30, 2010

	Proprietary Funds Actual	Budgeted Amounts		Final to Net Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 9,631	25,901	12,405	(2,774)
Charges for service	1,774,921	2,039,652	1,800,699	(25,778)
Miscellaneous	100,508	82,645	97,931	2,577
Total receipts	1,885,060	2,148,198	1,911,035	(25,975)
Disbursements:				
Business type activities	2,033,993	2,037,655	2,439,187	405,194
Total disbursements	2,033,993	2,037,655	2,439,187	405,194
Excess (deficiency) of operating receipts over (under) operating disbursements	(148,933)	110,543	(528,152)	379,219
Other financing sources (uses), net	5,773	-	173,335	(167,562)
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements and other financing sources (uses)	(143,160)	110,543	(354,817)	211,657
Balances beginning of year	725,065	1,103,825	1,103,825	378,760
Balances end of year	\$ 581,905	1,214,368	749,008	590,417

See accompanying independent auditor's report.

La Porte City Utilities

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each major fund.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. Only two of these ten functions are budgeted by La Porte City Utilities and they are: business type activities and debt service. Function disbursements required to be budgeted include disbursements for the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted revenues by \$237,163 and increased budgeted disbursements by \$404,532. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.



### **Other Supplementary Information**

## La Porte City Utilities

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2010

	Proprietary Funds			
	Meter Deposits	Debt Service Reserve	Diesel Engine Improvement	Total
Receipts:				
Use of money and property	\$ 14	-	-	14
Total receipts	14	-	-	14
Disbursements:				
Business type activities	-	-	-	-
Total disbursements	-	-	-	-
Excess (deficiency) of receipts over (under) disbursements	14	-	-	14
Other financing sources:				
Debt service	-	(147,255)	-	(147,255)
Operating transfers in/(out)	-	147,255	-	147,255
Net change in cash balances	14	-	-	14
Cash balances beginning of year	9,855	-	10,000	19,855
Cash balances end of year	\$ 9,869	-	10,000	19,869
<b>Cash Basis Fund Balances</b>				
Reserved for debt service:	-	-	-	-
Unreserved	9,869	-	10,000	19,869
Total cash basis fund balances	\$ 9,869	-	10,000	19,869

See accompanying independent auditor's report

**Schedule 2**

La Porte City Utilities  
Schedule of Indebtedness  
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Utility Revenue Notes - Electric fund	May 1, 2008	3.0 - 3.8%	885,000
State Revolving Loan - Water Revenue Capital Loan Notes	April 8, 2009	0%	250,000

See accompanying independent auditor's report

**Schedule 2**

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
770,000	-	120,000	650,000	26,855	-
54,900	153,028	-	207,928	-	-
<u>\$ 824,900</u>	<u>153,028</u>	<u>120,000</u>	<u>857,928</u>	<u>26,855</u>	<u>-</u>

**Schedule 3**

## La Porte City Utilities

## Bond and Note Maturities

June 30, 2010

Year Ending June 30,	Utility Revenue Bonds	
	Electric	
	Issued May 1, 2008	
	Interest Rates	Amount
2011	3.30%	120,000
2012	3.40%	125,000
2013	3.50%	130,000
2014	3.70%	135,000
2015	3.80%	140,000
		<u>\$ 650,000</u>

See accompanying independent auditor's report

## La Porte City Utilities

Schedule of Receipts by Source and Disbursements By Function  
All Proprietary Funds

For the Last Nine Years

	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>Receipts:</b>									
Use of money and property	\$ 9,628	22,920	39,959	47,018	23,236	15,113	12,281	17,041	31,363
Charges for service	1,774,921	1,653,284	1,699,041	1,638,317	1,531,128	1,383,209	1,255,468	1,170,925	1,031,824
Miscellaneous	100,511	83,983	143,393	85,755	80,284	75,614	88,088	7,579	124,217
Bond proceeds	153,028	54,900	881,080	-	-	-	-	-	-
<b>Total</b>	<b>\$ 2,038,088</b>	<b>1,815,087</b>	<b>2,763,473</b>	<b>1,771,090</b>	<b>1,634,648</b>	<b>1,473,936</b>	<b>1,355,837</b>	<b>1,195,545</b>	<b>1,187,404</b>
<b>Disbursements:</b>									
Business-type	\$ 2,033,993	1,914,276	1,782,609	1,479,790	1,370,877	1,219,895	1,104,848	1,252,566	1,028,562
Debt service	147,255	148,230	1,019,635	154,595	154,320	153,740	152,760	151,285	155,035
<b>Total</b>	<b>\$ 2,181,248</b>	<b>2,062,506</b>	<b>2,802,244</b>	<b>1,634,385</b>	<b>1,525,197</b>	<b>1,373,635</b>	<b>1,257,608</b>	<b>1,403,851</b>	<b>1,183,597</b>

See accompanying independent auditor's report

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities, as of and for the year ended June 30, 2010, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated February 28, 2011. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered La Porte City Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of La Porte City Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of La Porte City Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the La Porte City Utilities financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 and II-B-10.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-C-10.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Porte City Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

La Porte City Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utility's responses, we did not audit La Porte City Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of La Porte City Utilities and other parties to whom La Porte City Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of La Porte City Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., CPA'S

February 28, 2011



La Porte City Utilities  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

La Porte City Utilities  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:** No matters were noted.

**SIGNIFICANT DEFICIENCIES:**

- II-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-10 Preparation Financial Statements - La Porte City Utilities does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnotes disclosures) in conformity with accounting principles general accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Recommendation - The Utility should conform with generally accepted accounting principles.

Response - The Utility feels that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements.

Conclusion - Response accepted.

- II-C-10 Dummy Checks - During the year the Utility used "dummy" checks to enter expenditures into their computer system that were not paid by a traditional paper check. These are typically used for online payments and ACH transactions and are not pre-numbered.

Recommendation - The Utility should establish a written policy governing the use of dummy checks. The Utility should consider, at a minimum, requiring all dummy checks and online/ACH payments to be subjected to the same policies

La Porte City Utilities

Schedule of Findings and Questioned Costs

Year Ended June 30, 2010

as regular checks by the Board of Directors. Also we recommend a pre-numbering system for these payments from the Utility checking account to avoid random assignment of numbers.

Response – The Utility will establish a written policy for the use of dummy checks and online payments.

Conclusion – Response accepted.

La Porte City Utilities  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2010

**Part III: Other Findings Related to Statutory Reporting:**

III-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 did not exceed the amounts budgeted. However, we noted on the published budget amendment, the “Budgeted amounts as last certified” did not agree to the original budget. Also, the “Budget after Current Amendment” column did not total correctly when considering the current amendment to revenues and expenditures.

Recommendation – We recommend the Utility double check the math in all columns of the budget and any budget amendments before approving and publishing, as well as agreeing the amounts on the amended budget to the original budget.

Response – The budget amendment was prepared by a Utility staff with no prior budget experience. A former Utility employee had always prepared the amendment in the past. In the future, we will double check the numbers.

Conclusion – Response accepted.

III-B-10 Questionable Disbursements – We noted no questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

III-C-10 Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.

III-D-10 Business Transactions – There were no business transactions between the Utility and Utility officials or employees.

III-E-10 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-10 Board of Trustee Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-10 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of chapter 12B and 12C of the Code of Iowa and the Utility’s investment policy.

III-H-10 Revenue Notes– The Utility has complied with the revenue bond and note resolutions.

La Porte City Utilities

Staff

This audit was performed by:

Gina E. Trimble, CPA, Manager  
Dana Elliot, Staff